

# Committee on Resources

---

## Testimony

---

### Subcommittee on Water and Power

Thursday, July 17, 1997

1324 Longworth HOB, 2:00 P.M.

**STATEMENT OF STEPHEN J. WRIGHT  
VICE-PRESIDENT, NATIONAL RELATIONS  
BONNEVILLE POWER ADMINISTRATION  
UNITED STATES DEPARTMENT OF ENERGY**

**BEFORE THE  
SUBCOMMITTEE ON WATER AND POWER  
OF THE HOUSE COMMITTEE ON RESOURCES**

**JULY 17, 1997**

### Introduction

Chairman Doolittle and members of the Subcommittee on Water and Power of the House Committee on Resources (Subcommittee), I am Stephen J. Wright, Vice-President, National Relations of the Bonneville Power Administration (Bonneville). I appreciate this opportunity to discuss strategic planning at Bonneville including our participation in the Department of Energy's draft strategic plan pursuant to the Government Performance and Results Act of 1993 (GPRA).

Mr. Chairman, we again commend the Subcommittee for its continued focus on the impacts of the evolving competitive electric utility industry. Strategic planning at Bonneville is fundamental to our accomplishments. It is a critical element to being competitive while achieving our statutory requirements as a Federal hydroelectric power administration, meeting public responsibilities including our commitments to the taxpayer, and to our overall long-term programmatic achievements. The Subcommittee's attention and support are essential as we work together to address these challenges.

Strategic planning has been a core support of Bonneville's changing response to public and business needs for some time now. As a federal enterprise whose commercial success dictates its ability to provide public benefit, Bonneville found long-term strategic planning to be an essential supplement to its power system planning in the early 1980's as we considered our nuclear options in view of declining electric power load forecasts and increasing resource costs. Then Administrator Peter Johnson brought a Harvard Business School based methodology into the agency to help focus our economic decisions on the core benefits that the then recently enacted Pacific Northwest Electric Power Planning and Conservation Act (Regional Power Act) required Bonneville to successfully deliver to the region and nation. We stopped construction on two nuclear plants, trimmed costs and redirected remaining spending into smaller scale and more flexible resource strategies.

Now, times in the power business have changed again. Market forces will do much that previously involved significant governmental economic power. Further, Endangered Species Act requirements of the Federal

Columbia River Power System (FCRPS) changed our inventory of products and the relative priority of the public benefits provided by Bonneville.

Starting in 1993, as the National Energy Policy Act of 1992 began to transform the industry, Bonneville began to develop a market assessment and business plan. Out of this effort, Bonneville developed the more concrete and measurable targets and objectives required for commercial success in competitive power markets. Because Bonneville sells most of its product in the wholesale market, we had great incentive to respond early or become uncompetitive. These plans, targets and market developments then drove another significant wave of Bonneville cost reductions and shifted spending priorities. Change is inevitable and strategic planning has offered Bonneville a means of adapting to our customers' and constituents' changing needs.

Bonneville has long been a champion of strategic planning for marketing Northwest Federal hydropower and providing public benefits to the region's industries, businesses and consumers. The function of strategic planning at Bonneville today is to create a plan for the future which weaves together our public purposes and the business and employee dimensions of our agency. It does so by creating first a clear statement of purpose and objectives which are enduring. Second, it translates those objectives in four key target results areas: financial, public responsibilities, customer satisfaction and high performing organization. Third, operating groups within the agency develop detailed action plans to achieve results. Finally, actual accomplishments are monitored and compared to the plan's specific targets.

The Pacific Northwest Electric Power and Conservation Act (Regional Act) established extensive public involvement in Bonneville's energy planning and decisionmaking. Since passage of the Regional Act in 1980, Bonneville has maintained open communications and dialogue with a wide range of customers and constituents including public and privately-owned utilities, the Congress, agencies of Federal and state governments, tribal governments, environmental and other interest groups, private enterprises, and Northwest consumers. Ongoing strategic planning and consultations with both customers and constituents have provided sound guidance in helping us focus our mission, assure that our goals are specific and results-oriented, and that our strategies and funding expectations are appropriate and reasonable.

My statement today will focus on the strategic planning actions Bonneville is taking consistent with the strategic direction of the Government Performance and Results Act (GPRA), P.L. 103-62. Because the GPRA applies to Cabinet level agencies rather than elements within such agencies, a specific, separate GPRA plan for Bonneville has not been developed. However, Bonneville has incorporated the essential guidance and elements of the GPRA into its strategic planning efforts which guide the agency.

We believe these strategic planning efforts created the vision and foundation for actions which have produced the near-term financial stability Bonneville now enjoys while the wholesale electricity market continues to become increasingly competitive. We believe our ongoing strategic planning activities will produce long-term benefits as well.

First, I will discuss the role of the Bonneville, in the U.S. Department of Energy Strategic Plan: Providing America with Energy Security, National Security, Environmental Quality, and Science Leadership. Next, I will discuss Bonneville's strategic planning efforts including our agency's purpose and the Strategic Business Objectives (SBOs) we have adopted to succeed in the transition from regulation to competition. Finally, I will present a summary of the performance indicators we have put in place to ensure accurate and timely measurement of our progress toward achieving results, including some recent examples of our success.

## **Role of the Power Marketing Agencies in Department of Energy's Strategic Plan**

As a Cabinet-level Department subject to the GPRA, the Department is currently engaged in a significant effort to chart its strategic plan. Under the GPRA, each Cabinet level department, independent agency, and government corporation is to develop a strategic plan addressing its mission, long-term goals, and strategies for achieving those goals. Through consultation, the plans are to reflect the considerations of Congress as well as the views of other stakeholders.

The Department's plan encompasses numerous critical responsibilities and activities, including energy resources, national security, environmental quality, and science and technology. As an important element of the Department's energy resources program, the Power Marketing Administrations (PMA's), including Bonneville, have worked closely together to specify program performance plans and measurement. Programmatic performance measures called for by the GPRA in the Department's Draft Strategic Plan address the PMAs responsibility to promote the safety and reliability of electric utility systems. Both the FY 1998 Bonneville Congressional Budget Request and the FY 1998 Department of Energy Congressional Budget Request Budget Highlights and Performance Plan specified Bonneville's strategic business objectives and their associated performance measures.

Bonneville fully understands the importance of promoting a safe and reliable electric utility systems and is an active participant in these efforts. Our 1997 performance indicators, which are being actively measured, reflect several initiatives in this area. First, Bonneville set a goal of having no more than four unplanned outages at 94 percent of the points of delivery. The points of delivery target suffered during the first quarter of FY 1997 because of severe weather. The good news, however, is that the second quarter was the best in six years and there is a good chance of meeting this target. Second, Bonneville set a target of keeping recordable injuries to 2.5 per 100 full time employees. This target represents about half of the industry average. To date, the recordable injury rate is 1.2 per 100 employees, which is an improvement over last year. Finally, Bonneville set a target of avoiding a major outage on the alternating-current (AC) intertie. Bonneville has been working diligently to increase intertie transfer while ensuring the AC intertie does not suffer an outage. The work includes clearing tress and bushes, adding shunt capacitors, reconductoring lines, reinforcing remedial action plans and conducting numerous planning studies.

### **Bonneville's Mission and Strategic Business Objectives**

Over the past year, Bonneville has reaffirmed the fundamental value and role the agency plays in delivering public responsibilities. As suggested in the GPRA, Bonneville has adopted a clear statement of purpose: -- "To meet our public responsibilities through commercially successful businesses." Bonneville's unique character is based on the concept that we can only deliver on those public responsibilities -- for example, widespread use of the federal power, environmental mitigation, energy efficiency and renewable resource development -- if we succeed commercially. This is essential to understanding Bonneville's overall direction and role in the future. Commercial success in the market is not our goal; it is the mechanism for achieving our statutory public responsibilities.

In 1995, Bonneville published its Business Plan which integrates a number of initiatives the agency has taken to achieve commercial success in a deregulated market. The plan shows how all the elements fit together to make Bonneville competitive so that it can continue to fulfill its public mission in a rapidly changing utility market. It sets policy direction for Bonneville's pricing, power marketing, transmission, energy efficiency, and fish and wildlife activities.

Bonneville developed the Business Plan through many months of discussions with public and private utilities, federal agencies, state and local governments, Northwest Indian Tribes, public interest groups, and members of the general public. Public comment on the Draft Business Plan, Draft Environmental Impact Statement, and Supplemental Draft Environmental Impact Statement helped Bonneville shape and improve its plans to better meet customer and stakeholder concerns.

Through this process, Bonneville identified seven Strategic Business Objectives. The Strategic Business Objectives are interrelated and derive directly from our public responsibilities identified in Federal statutes. They are written to withstand the test of time and to serve as guides for our actions and decisions at all levels of the agency. Every project, every individual action, every issue is tested for consistency with the Strategic Business Objectives and our agency's purpose.

**Objective 1:** Achieve high and continually improving customer satisfaction. Customer satisfaction has always been Bonneville's objective, but intense competition requires a renewed focus on achieving extremely high customer satisfaction. In today's utility industry, Bonneville's customers have numerous alternative choices. Bonneville must compete for them. We can no longer rely on an inherent price advantage.

**Objective 2:** Increase the value of our business and share the expanded benefits. Bonneville is more than a business. Bonneville has statutory based public responsibilities including mitigation and enhancement of fish and wildlife, assuring high system reliability, promotion of energy efficiency and renewable resources, and public involvement. Market success gives Bonneville the financial strength necessary to achieve these mandates. Quality products and services are necessary to attract and keep customers so Bonneville can recover its total system costs of its public responsibilities.

**Objective 3:** Be the lowest-cost producer of power and transmission services. The realities of an increasingly competitive marketplace make low-cost production essential to Bonneville's future. Cost control is vital, but being lowest-cost producer also means optimizing the use of all assets and using competition among suppliers to keep costs down.

**Objective 4:** Achieve and maintain financial integrity. Financial integrity includes assuring full and timely payments to Treasury and other creditors; recovering all costs over time; maintaining economic access to capital, and providing high quality and timely financial information to Bonneville managers and other interested parties. Bonneville has been well served by its strategic planning. At the end of fiscal year 1996, Bonneville completed its 13th consecutive planned Treasury payment. We are well positioned to make this year's Treasury payment as well.

**Objective 5:** Keep the power system safe and reliable. Bonneville has an exemplary record of safety and reliability. Continuing this record is a key to Bonneville's success.

**Objective 6:** Invest in environmental results to sustain competitiveness. Bonneville is committed to the integrity of the region's environmental and natural resources because protection of these resources is federally mandated, essential to the quality of life in the Northwest, and because strategic environmental effectiveness helps make Bonneville a more attractive power supplier.

**Objective 7:** Transform Bonneville into a high-performing, business-oriented organization. Business strategy charts the course for an organization, but Bonneville recognizes that its employees -- enabled by structure, systems, process and culture -- achieve the results. Bonneville is committed to developing a work

environment that strongly promotes the strategic business objectives and provides employees with a high sense of work satisfaction.

Bonneville's seven Strategic Business Objectives provide a focus on the fundamentals of performance and unity of purpose. The development of such objectives is consistent with requirements of GRPA. They are the tools to guide us through a rapidly changing, restructured electric power industry. They have served us well since the early 1990s, providing a touchstone for every action. They remain as fundamental and important today as when they were adopted.

### **Bonneville's Performance Indicators**

Consistent with GPRA, Bonneville translated its Strategic Business Objectives into annual targets with measurable results for the Power and Transmission Business Lines, Energy Efficiency Group and Corporate Group. Specifically, the targets:

- create greater clarity about the agency's direction by translating long-term strategic business objectives into near-term results;
- translate abstract guidelines into concrete program results to be achieved;
- are specific, of short duration, become the basis for measuring progress and providing accountability; and
- focus the agency on a near-term cohesive direction, contributing to a unity of purpose.

For FY 1997, Bonneville established four key target areas: customer satisfaction, finance, public responsibilities, high performing organization. Midway through the fiscal year, indications are that we expect to succeed in most target areas. We do expect some or all of them to change from year to year as we achieve one set of targets and progress to a new set.

Bonneville would like to share with the Subcommittee our progress to date.

**Achieve High and Continually Improving Customer Satisfaction:**

- When Bonneville first established Strategic Business Objectives, it became apparent that our commercial success dictated the funds and flexibility we would have to meet our public responsibilities. Customer satisfaction is a key indicator of potential commercial success. Initially, we set ourselves the goal of moving from lukewarm customer satisfaction to a measurable goal of 75 percent satisfied. We failed. In 1996, Bonneville's customer survey showed 54 percent of the customers satisfied with our agency, including 9 percent that were extremely satisfied. We learned that major movement required targeted effort to simplify our contracts, decrease our response times, and improve the processes that supported our account executives. For 1997 we set our target at a more modest 65 percent satisfied. The results of this year's customer satisfaction survey are now available. Overall, they show we exceeded far beyond our expectations, with 72 percent of Bonneville customers satisfied., including 19 percent that are extremely satisfied. Bonneville has seen improvements in customer satisfaction, but we still have a long way to go. No commercial enterprise would feel comfortable with only 75 percent of its customers feeling OK about doing business with them. We will continue to set increasingly challenging goals and use strategic planning to become more clearly focused on the changing customer needs we must satisfy to a high degree as power markets continue to change.

## Finance:

- To meet the market, over the past three years, Bonneville has taken significant actions to reshape the agency. After extensive cost cutting, reorganization, and downsizing, Bonneville initiated a 13 percent rate reduction that will be effective through fiscal year (FY) 2001. Cost cutting and downsizing made an enormous contribution to rate reduction and maintaining a competitive position. Three major cost cutting efforts since 1995 have reduced our projected expenditures by an average of \$600 million annually relative to the FY 1995 Congressional Budget. We have also met our target of reducing Federal and contractor staff levels by more than 1,000 positions. While our initial cost cutting targets have been met, we are now working on further reductions in order to continue to meet the market.
- Bonneville ended FY 1996 with financial reserves of \$278 million. Due to cost reductions, as well as a favorable water year, Bonneville was able to maintain an adequate financial reserve balance despite increased costs for legal settlements related to long-term power purchase contracts and lower revenues due to customer diversification to other power suppliers.
- Bonneville worked closely with customers during 1996 to achieve a commitment to future power services. This load commitment effort yielded about \$982 million annually in priority firm (PF) equivalent revenues, based on equivalent sales of 4,598 average megawatts (including Diversification Fees).

## Public Responsibilities:

- Fish and wildlife investments are consistent with the Memorandum of Agreement reached with regional and other federal partners reflecting an annual average of \$252 million plus operations.
- The goal for the 1996 Constituent and Tribal Satisfaction was to achieve 60 percent overall satisfaction. As this target was met, the target for FY 1997 is increased to a satisfaction rating of 70 percent. Results of this year's survey are expected later this month.

## High Performing Organization

- Bonneville set a target that tests employee understanding of the agency's purpose and business direction. In today's fast moving competitive environment, a greater premium will be placed on responsiveness and flexibility. A high performing workforce will be one where employees think creatively on their own, employ initiative, and make timely decisions. An employee survey will measure progress in this area. The target is 75 percent of employees and 100 percent of managers fully understand the business. Results will be known later this summer.

Currently, we are expanding our target setting effort to take a view toward the longer-term through FY 2003, including contingency plans for unexpected outcomes. Taking the long-term perspective allows us to more clearly link our near-objectives to our long-term strategic plans.

## Congressional Involvement

While Bonneville has put considerable effort into its strategic planning effort, the opportunity remains for increased involvement of the Congress. Bonneville has spent considerable time in the last year seeking to keep this Committee involved in key strategic issues as they arise. We look forward, Mr. Chairman, to working closely with you in the development and implementation of our strategic plans.

## Conclusion

Mr. Chairman, Bonneville fully supports the objectives and spirit of the GPRA. We have initiated significant changes to reshape Bonneville and define the agency's mission, long-term goals, and strategies for achieving those goals. Maintaining a safe and reliable Northwest power grid is critical to our mission and maintaining a competitive position. We have set ambitious and measurable performance targets for all of our program functions, and are making significant progress towards meeting each of these targets. The actions we have taken will help to assure that we achieve competitive rates and protect and recover the investment of the Federal taxpayer.

We again commend this Subcommittee for its continued focus on the public and economic impacts of a new, more competitive electric utility industry. The next five years will be critical for Bonneville. Decisions about Bonneville power and transmission will impact the Northwest economy, funding for environmental protection, and repayment of the Federal and non-Federal investment. The Subcommittee's attention and support are essential as we work together to address these challenges.

This concludes my formal statement. I would be pleased to address any questions you may have.

###